OUTLOOK FOR THE ESTONIAN WOOD MARKETS

CHALLENGES & OPPORTUNITIES

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KESKKONNAINVESTEERINGUTE KESKUS

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Market Outlook: Finland

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Assignment: How to adjust to the changes in the forest industry sector – challenges and opportunities for Estonian wood markets

Scope

- Outlook for the current state of the forest industry in the Baltic Sea region
- Outlook for the impacts in the wood market and estimation of pulpwood consumption in the coming years and insights to the export opportunities of pulpwood in Estonia.
- Outlook for the future developments in the industry
- Recommendations for the main actors in the Estonian wood market to adjust to the changes in the industry

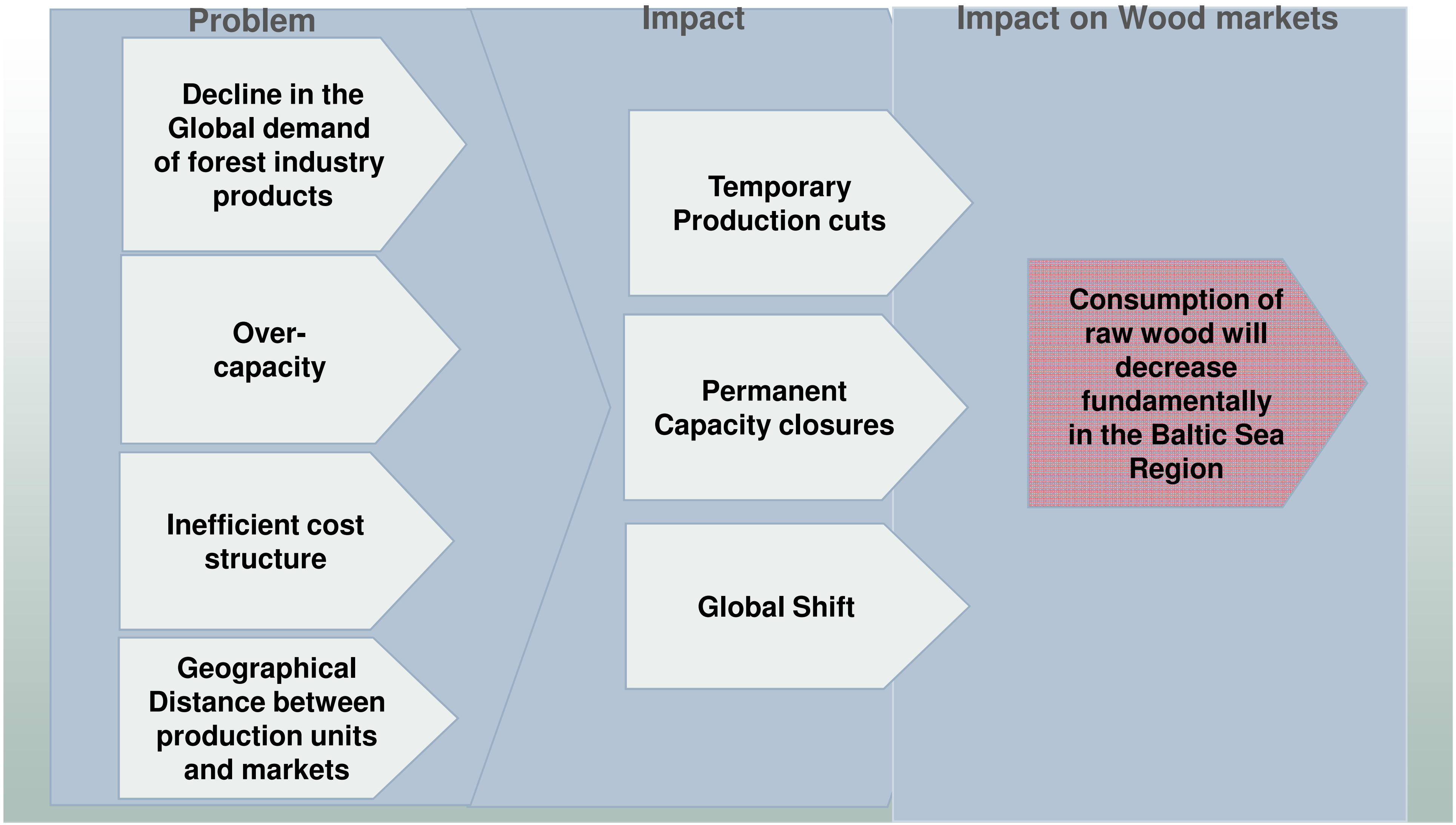
Objectives

- Find out:
  - How the forest industry will adjust to the changed market conditions?
  - How will the change impact wood markets in Estonia?
  - How to adjust to the changes in market conditions?

Deliverables

- Outlook report and recommendations
- Figures used in the analysis

Major changes in the global forest industry will lead to inevitable changes in the wood markets



Current Status of the Finnish Forest Industry

Product group 1000 tonnes/cum	Production	Exports	Share of exports, % of production	Number of production plants (*)
Paper, tonnes	10 200	9 200	90	26
Paperboard, tonnes	2 900	2 600	90	14
Pulp, tonnes	11 600	2 200	19	40
- Chemical market pulp	2 400	2 100	85	..
Sawn wood, cum	9 800	6 100	62	170**
Plywood, cum	1 300	1 100	85	11
Particle board, cum	250	88	35	2
Fibreboard, tonnes	66	41	62	2

SOURCE: Finnish Forest Industries Federation, (*) number of plants within 2007, (**) industrial sawmills

Capacity closures of pulp production have been started in Finnland

Closed Pulp Mill	Pulpwood consumption Mill. m3
Kemijärvi	1.2
Tervasaari	1.2
Kaskinen	2.1

Temporarily Closed Pulp Mill	To	Pulpwood consumption Mill. m3
Enocell	31.12.2009	2.8
Kotka	30.06.2009	0.9

Total decrease by 2009 6.1 mill. m3

Capacity closures will be continued…

Closed semi- chemical pulp mills:	Closed saw mills:	Possible closures:
Kajaani Voikkaa	Soinlahti Teuva Leivonmäki Tolkkinen	Kemi Kyröskoski Kitee Kotka

Wood consumption have decreased in the latest years over **10 mill.3** because of the closed mills.

Capacity closures will continue!

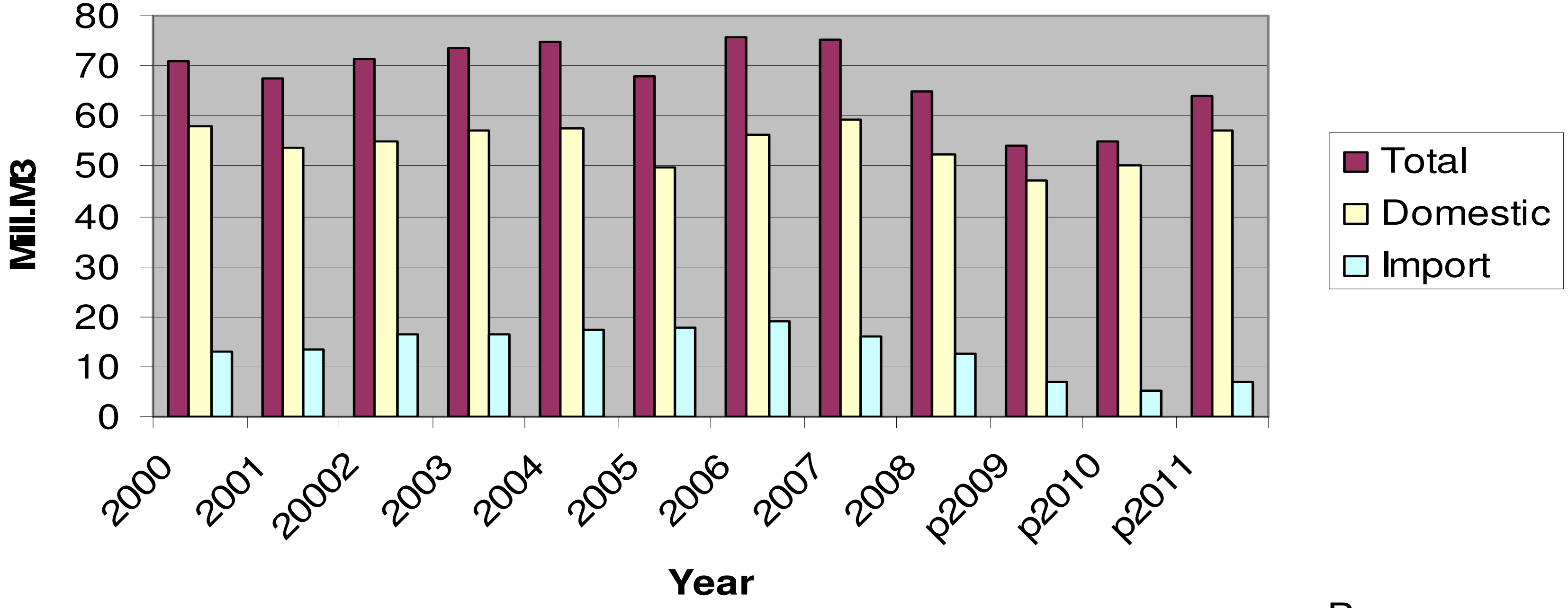
Finnish Forest Industry: Decline in production will stabilize in 2009 – 2010; small increases in production estimated for 2011

	Unit 1000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009p	2010p	2011p
Sawn softwood	cums	13 320	12670	13280	13645	13460	12190	12145	12400	9800	7800	7500	9000
Plywood	cums	1170	1145	1240	1300	1350	1305	1415	1410	1265			
Particle board	cums	460	430	413	399	448	456	440	400	250			
Fibreboard	tons	100	109	101	101	102	101	83	75	66			
Mechanical pulp	tons	4819	4621	4588	4601	4831	4361	5169	5157	4465	3800	4300	4500
Semi-chemical pulp	tons	7101	6548	7143	7350	7783	6773	7946	7699	7159	6100	6500	6800
Chemical pulp (sulphate)	tons	11920	11169	11731	11951	12614	11134	13115	12856	11624	9900	10800	11300
Total pulp	**tons**	**10758**	**9902**	**10050**	**10353**	**11178**	**9842**	**11172**	**1272**	**10229**	**8500**	**8700**	**9000**
Paper	tons	9748	8888	8962	9264	10024	8816	9744	9768	8834			
Printing & Writing paper	tons	6743	6858	6341	6532	6843	6090	6699	6776	5894			
- Mechanical P&W	tons	3005	2530	2621	2732	3181	2727	3045	2992	2940			
- Woodfree P&W	tons	1011	1014	1087	1089	1154	1026	1429	1504	1394			
Paperboard	tons	2751	2601	2738	2706	2858	2549	2967	3063	2897	2500	2600	2700
Paper and paperboard total	**tons**	**13509**	**12503**	**12788**	**13058**	**14036**	**12391**	**14140**	**14335**	**13126**	11000	11300	11700
Total	**cums+ tons**	**39**	**36**	**38**	**39**	**40**	**36**	**39**	**40**	**35**	**29**	**30**	**32**
Wood consumption Total	milj.m3	71	67	71	73	75	68	76	75	65	54	55	64
Domestic	milj.m3	58	54	55	57	58	50	56	59	52	47	50	57
Import	milj.m3	13	14	16	17	17	18	19	16	13	7	5	7

Wood consumption in Finnish Forest Industry: Share of the imported wood will decline

Wood usage

2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009p**	**2010p**	**2011p**
71	67	71	73	75	68	76	75	65	**54**	**55**	**64**
58	54	55	57	58	50	56	59	52	**47**	**50**	**57**
13	14	16	17	17	18	19	16	13	**7**	**5**	**7**

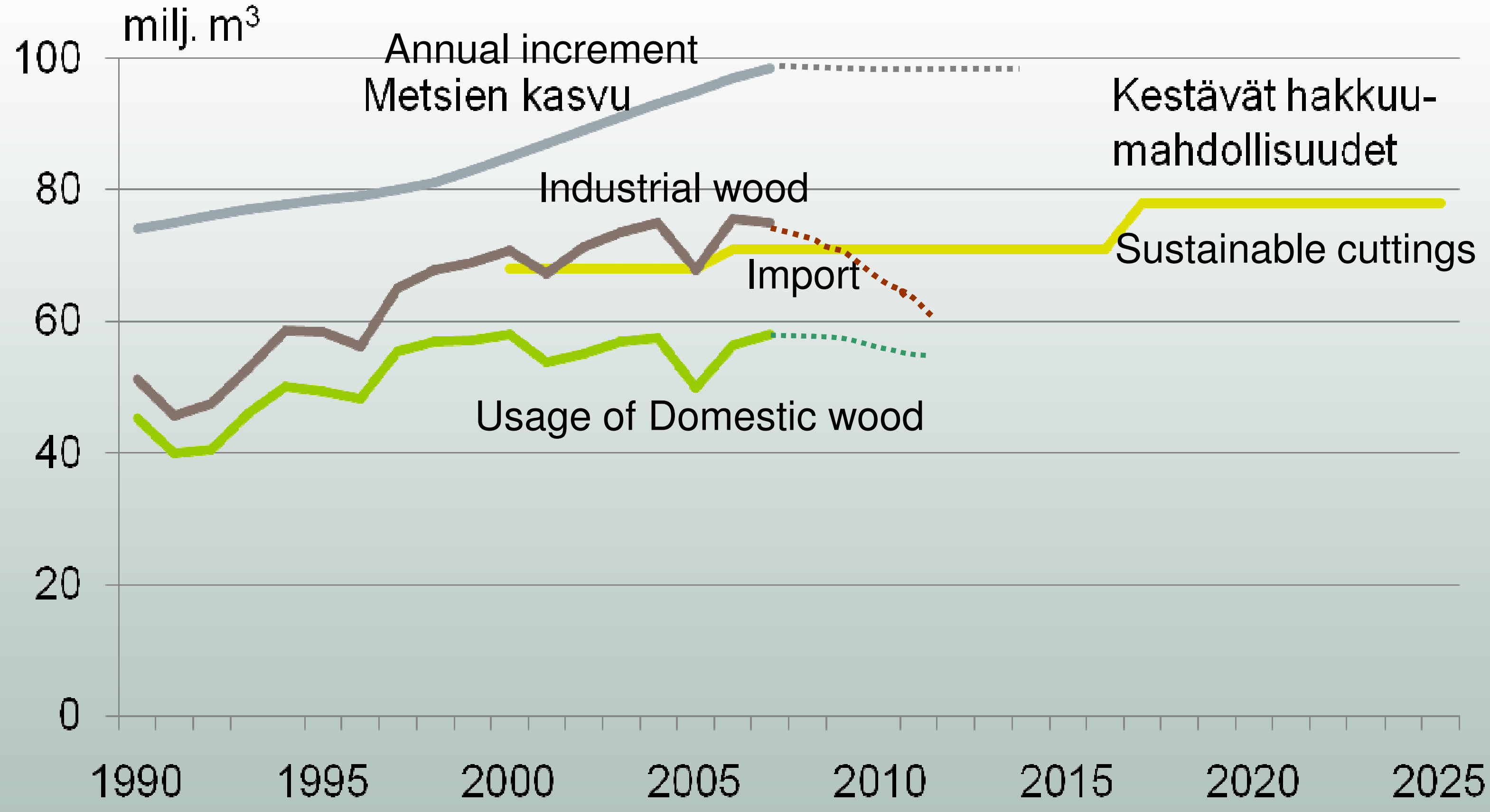


p=Prognose

Soure: Finnish Forest Institute and FFIF

Prognoses: Economical Institute of Pellervo and KM

Use of domestic wood can increase up to 10-15 million cubic meters



Source: Forest Research Institut

Estimate: KM

What is expected in the Finnish Forest Industry: decreases in wood usage and imports, high demand of energy wood

Wood consumption will decrease from 65 to 54 mill.m3 → Wood usage will be 2009 and beginning of 2010 very low

Raw wood import will decrease from 13 to 7 mill.m^3

- Main reason: Russian custom regulations
- Raw wood import from Russia will be small, only small diameter birch pulpwood
- Imports from Baltic Countries will increase (Finland and Sweden)

Raw wood reserves of the Forest Industries are very high →Raw wood reserves of Forest industries will go down next year, maybe already in autumn of 2009, because of increasing production and weak raw wood market

Demand of wood products is very low:

- Mills have to decrease production, the temporary interruptions will continue
- Saw mills will be "hardest hit"

The Finish Forest Industry will not invest in Finland investments in the Far East and South America

Wood market is in disorder because of the low price level

- Tax reduction of selling will improve a little wood market

High demand for energy wood

The After the market founds its new balance the Finish Forest Industry will be more competitive than ever before!

Objectives & Assignment

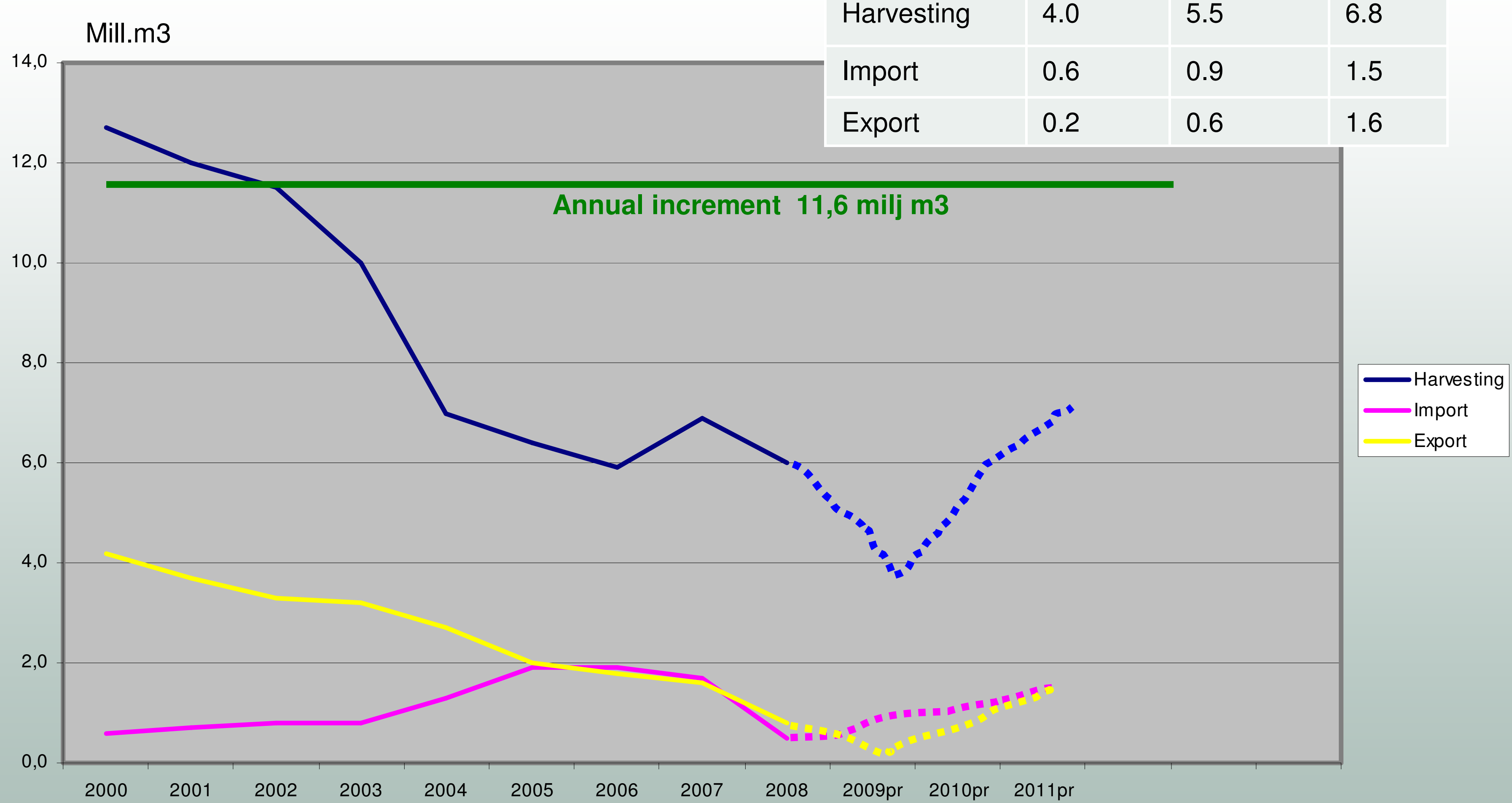
Market Outlook: Finland

Market Outlook: Estonia

Recommendations

Overview of the Wood Markets in Estonia: Market will start to recover in 2010

Million m3	2009	2010	2011
Harvesting	4.0	5.5	6.8
Import	0.6	0.9	1.5
Export	0.2	0.6	1.6



Source: EMTL Estimates: KM

What is expected in the Estonian wood market

Year 2009 will be very depressing in forestry

- Harvesting is estimated to be only 4 mill. m3 (annual increment11.4)
- Very difficult to sell pulp wood (even at low price)
- Export is insignificant (estimation is 0,2 mill.m3)
- Selling of saw logs is easier, the price level is low

Year 2010 is expected to be little better, but still difficult

- Harvesting is estimated to be over 5 mill. M^3
- Exports will increase because of the improved situation in the industry in the Nordic countries
- Situation for the sawmills is still poor; however, there is a constant demand of saw logs

It is expected that **year 2011** is much better than the previous year

- Harvesting volume is expected to be almost 7 mill. m3
- Exports and also imports will be close to the average level

NB ! Energy wood will play an important role !

Objectives & Assignment

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Recommendations: Actions needed to adjust to the changed market conditions

Forest Owner Associations

The Forest Owner Associations should establish economical union for harvesting and marketing of wood
The objectives are:

- to organize pulp wood export to Finland and to Sweden
- to organize the purchasing of energy wood to the Power Plants
- to organize silvicultural work of the Private Forest Owners
- to help saw log marketing to the local Sawmills

Private Forest Union

- The Private Forest Union should continue as a supervisor of interests

Private Forest Centre

- The Private Forest Centre should continue as the supervising and monitoring organization in the Private Forestry

Private Forest owners

- The Private Forest Owners need to find new ways to co-operate

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